

## Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AF-10 ARA-16 NEA-10 RSC-01

SPC-03 AID-20 NSC-10 CIEP-02 TRSE-00 SS-20 STR-08

OMB-01 CEA-02 SCI-06 FEA-02 INT-08 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 PA-04 PRS-01 USIA-15 /226 W

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R 181115Z JAN 74

FM AMEMBASSY BERN

TO SECSTATE WASHDC 8614

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY STOCKHOLM

AMEMBASSY ROME

AMEMBASSY LUXEMBOURG

AMEMBASSY COPENHAGEN

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL ZURICH

C O N F I D E N T I A L SECTION 1 OF 2 BERN 0222

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, EFIN, ECON, OECD, SZ

SUBJECT: ENERGY: FEBRUARY 11 FOREIGN MINISTERS MEETING ON  
INTERNATIONAL ENERGY PROBLEMS

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REF: A) STATE 7324; B) BERN 0152

1. SUMMARY:

FORECASTS BY ECONOMIC RESEARCH COMMISSION AND TWO MAJOR COMMERCIAL BANKS AGREE SWITZERLAND HAS HAD NO PETROLEUM SUPPLY PROBLEMS, AND 1973 OIL PRICE INCREASES WILL HAVE ONLY MODERATE IMPACT ON SWISS ECONOMY IN 1974. NO MAJOR CHANGES EXPECTED IN GOVERNMENT MONETARY, FISCAL, OR TRADE POLICIES. WHILE COMMISSION MORE OPTIMISTIC THAN BANKS, GENERAL FORECAST IS FOR SLOWER GNP GROWTH ( ZERO TO TWO PERCENT) AND HIGH INFLATION (AS MUCH OR SOMEWHAT MORE THAN IN 1973). COMMISSION PREDICTS BOP CURRENT ACCOUNT ROUGHLY IN BALANCE WHILE BANKS SEE MANAGEABLE DEFICIT. ALTHOUGH SOME BOTTLENECKS AND STRUCTURAL ADJUSTMENTS EXPECTED, EMPLOYMENT SITUATION SHOULD REMAIN VERY TIGHT. END SUMMARY.

2. IN DEVELOPING REPLY TO REFTEL A, EMBOFF SPOKE WITH ECONOMISTS IN ECONOMIC RESEARCH COMMISSION, SWISS NATIONAL BANK, UNION BANK (UBS), AND SWISS CREDIT BANK. COMMISSION, WHICH IS COMPOSED OF FEDERAL GOVERNMENT AND NATIONAL BANK OFFICIALS PLUS REPRESENTATIVES FROM BUSINESS, LABOR UNIONS, AND ACADEMIA, DEVOTES MORE RESOURCES TO ECONOMIC FORECASTING THAN ANY OTHER ORGANIZATION IN SWITZERLAND.

3. COMMISSION FORECAST FOR 1974 (TO BE PUBLISHED IN FEBRUARY) AMAZINGLY OPTIMISTIC WHILE COMMERCIAL BANK ECONOMISTS MODERATELY OPTIMISTIC. ON ASSUMPTIONS OF NO PETROLEUM SUPPLY PROBLEM (NOVEMBER-DECEMBER IMPORTS WERE ABOVE NORMAL) AND NO ADDITIONAL CRUDE OIL PRICE INCREASES, FOLLOWING IS SUMMARY OF COMMISSION FORECAST WITH VIEWS OF COMMERCIAL BANKS IF THEY DIFFER.

4. MONETARY AND FISCAL POLICIES: ALL AGREE THERE IS UNLIKELY TO BE ANY BASIC CHANGE IN POLICIES. PRESENT RESTRICTIVE MONETARY POLICY TO CONTINUE WITH MINOR ADJUSTMENTS AS YEAR PROGRESSES. INTEREST RATES EXPECTED TO STAY HIGH BY SWISS STANDARDS BUT BELOW RATES OF OTHER INDUSTRIALIZED COUNTRIES. FEDERAL GOVERNMENT EXPECTED TO ADHERE (MORE OR LESS) TO 1974 BUDGET APPROVED BEFORE

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DECEMBER OIL PRICE INCREASES (FISCAL POLICY NOT VERY EFFECTIVE IN SWITZERLAND ANYWAY SINCE FEDERAL GOVERNMENT ACCOUNTS FOR ONLY ABOUT ONE-THIRD OF PUBLIC SECTOR EXPENDITURES). GOVERNMENT WILL CONTINUE "STABILIZE" NUMBER OF FOREIGN LABORERS AND EMPLOYMENT SITUATION SHOULD REMAIN TIGHT. NATIONAL BANK ECONOMIST SAID FURTHER RELAXATION OF CAPITAL CONTROLS MIGHT OCCUR DURING YEAR.

5. GENERAL TRADE POLICY: AGAIN, NO BASIC CHANGES.  
GOVERNMENT EXPECTED CONTINUE GENERALLY LIBERAL TRADE  
POLICY WITH DESIRE MOVE AHEAD RAPIDLY AS POSSIBLE  
TOWARD SUCCESSFUL MULTILATERAL TRADE NEGOTIATION. SINCE  
NO SERIOUS BALANCE OF PAYMENTS PROBLEMS ANTICIPATED (SEE  
BELOW) AND BECAUSE DOMESTIC ECONOMY HEAVILY DEPENDENT  
ON EXPORTS, SWISS SEE NO NEED FOR NEW IMPORT RESTRIC-  
TIONS AND REALIZE THEY ARE VULNERABLE TO RETALIATION.  
NOVEMBER-DECEMBER TONNAGE FIGURES OF PETROLEUM IMPORTS  
INDICATE ARAB EMBARGO THUS FAR HAS BEEN NON-EVENT FOR SWISS. IMPORTS  
OF CRUDE AND MOST PRODUCTS WERE HIGHER IN LAST TWO  
MONTHS 1973 THAN IN SAME PERIOD 1972. SWISS LAW  
REQUIRES PETROLEUM IMPORTERS MAINTAIN MINIMUM RESERVES  
EQUIVALENT TO SIX MONTHS OF SWITZERLAND'S NORMAL CON-  
SUMPTION. GOVERNMENT AND PRIVATE FIRMS MAINTAIN ADDI-  
TIONAL STOCKS (ONE MAJOR FIRM REPORTEDLY HAS TWO YEARS'  
SUPPLY). THERE HAVE BEEN NO LINES AT SWISS GAS STATIONS.  
PRESENT CONSERVATION MEASURES (100 KPH SPEED LIMIT;  
REDUCED ALLOCATIONS OF 20/25 PERCENT BY IMPORTERS AND  
DISTRIBUTORS TO CONSUMERS; BUILD-UP OF STOCKS; LIMITS  
ON HOARDING; RESTRICTIONS PREVENTING MOTORISTS FROM  
NEIGHBORING COUNTRIES COMING INTO SWITZERLAND TO FILL  
UP; ETC.) EXPECTED TO REMAIN IN EFFECT FOR TIME BEING  
AS CAUTIONARY MEASURE AND FOR PSYCHOLOGICAL REASONS.

6. COMMISSION PREDICTS 1974 REAL GNP GROWTH OF APPROXI-  
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C O N F I D E N T I A L FINAL SECTION OF 2 BERN 0222

(ESTIMATED DOLLARS 885 MILLION INCREASED PETROLEUM COST COMPARED WITH OECD ESTIMATE OF DOLLARS 750 MILLION) AND OTHER RAW MATERIALS WHILE IMPORTS OF CONSUMER AND CAPITAL GOODS TO GROW AT VERY SLOW RATE. INCREASED INVISIBLES SURPLUS EXPECTED TO OFFSET HIGHER TRADE DEFICIT AND LEAVE CURRENT ACCOUNT IN ROUGH BALANCE FOR 1974.

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7. BOTH COMMERCIAL BANKS MORE PESSIMISTIC AS HAVE BEEN OTHER COMMERCIAL BANKERS AND GOVERNMENT OFFICIALS IN RECENT CONVERSATIONS WITH EMBOFFS. BOTH UBS AND SWISS CREDIT BANK SEE REAL GNP GROWTH BETWEEN ZERO AND TWO PERCENT, CONSUMER PRICE INCREASES SOMEWHAT HIGHER THAN IN 1973 (14-16 PERCENT FROM DEC 1972 TO DEC 1973 COMPARED WITH 11.9 PERCENT IN SAME PERIOD LAST YEAR, AND CURRENT ACCOUNT DEFICIT OF DOLLARS 300 MILLION. SINCE SWITZERLAND SUCCESSFULLY OVERCAME LARGER DEFICITS IN EARLY 1960'S AND AS OF JANUARY 15 HAD GOLD AND FOREIGN EXCHANGE RESERVES OF DOLLARS 6.2 BILLION, COMMERCIAL BANK ECONOMISTS SEE NO REASON TO BECOME EXCITED.

8. ALL ECONOMISTS WITH WHOM WE HAVE TALKED RECENTLY EXPECT SOME STRUCTURAL ADJUSTMENTS, WITH TEXTILE, SHOE, CHEMICAL, TOURIST, AND AUTOMOBILE RELATED INDUSTRIES BECOMING LESS COMPETITIVE. SOME MARGINAL FIRMS MAY GO UNDER. ANY LABOR DISPLACED FROM THESE INDUSTRIES, HOWEVER, WILL READILY FIND EMPLOYMENT IN OTHER SECTORS OF THE CHRONICALLY LABOR SHORT SWISS ECONOMY. THE LABOR REPRESENTATIVES ON THE COMMISSION AGREE THAT THERE WILL BE NO UNEMPLOYMENT PROBLEM FOR THE FORSEEABLE FUTURE. THERE WAS GENERAL AGREEMENT THAT THE GOVERNMENT'S ANTI-INFLATION POLICIES WOULD HAVE MORE IMPACT ON THE SWISS ECONOMY DURING 1974 THAN WILL OIL PRICE INCREASES. REDUCED GROWTH OF CONSUMER DEMAND AND LESS ACTIVITY IN CONSTRUCTION SECTOR EXPECTED TO BE MAIN DEFLATIONARY

FORCES. WAGE INCREASES IN NEIGHBORHOOD OF 11-12 PERCENT EXPECTED, OR SLIGHTLY LESS THAN IN 1973.

9. IN A RECENT PRESS INTERVIEW, NEW FINANCE MINISTER GEORGES-ANDRE CHEVALLAZ FOLLOWED COMMISSION'S OPTIMISTIC LINE. HE SAID OIL CRISIS WOULD NOT PRODUCE RECESSION IN SWITZERLAND AND CALLED FOR REDUCED PUBLIC AND PRIVATE EXPENDITURES TO FIGHT INFLATION.

10. ABOVE FORECAST SHOULD BE READ WITH UNDERSTANDING THAT ECONOMIC FORECASTING NOT A HIGHLY DEVELOPED ART IN SWITZERLAND. BANKING AND COMMERCIAL SECRECY LAWS, WHICH LIMIT GOVERNMENT'S ACCESS TO BASIC INFORMATION ON PRESENT AND PLANNED ACTIVITIES OF SWISS FIRMS, MAKE CONFIDENTIAL  
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IT IMPOSSIBLE TO DEVELOP DATA BASE REQUIRED FOR SOPHISTICATED PROJECTIONS. AS A CONSEQUENCE, ESTIMATES BY GOVERNMENT, AND PARTICULARLY BY PRIVATE ORGANIZATIONS, RELY MORE ON "SEAT-OF-THE-PANTS" THAN QUANTITATIVE METHODS.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM PRODUCTION, IMPORTS, EXPORTS, LESS DEVELOPED COUNTRIES, INFLATION, GNP, FOREIGN MINISTERS MEETINGS, ECONOMIC REPORTS, PRICE INDEXES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 JAN 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974BERN00222  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** n/a  
**From:** BERN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740133/aaaabeqh.tel  
**Line Count:** 248  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** A) STATE 7324; B) BERN 0152  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 01 APR 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <01 APR 2002 by kelleyw0>; APPROVED <29 MAY 2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ENERGY: FEBRUARY 11 FOREIGN MINISTERS MEETING ON INTERNATIONAL ENERGY PROBLEMS  
**TAGS:** ENRG, EFIN, ECON, SZ, OECD  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005